

ADD

TP: Rs 1,385 | ▲ 5%

SUPREME INDUSTRIES

Plastic Products

24 January 2020

Margins surprise positively, volumes disappoint

Supreme Industries (SI) reported below-estimated Q3FY20 revenue (-2.6% YoY) owing to flat volumes. EBITDA margins beat estimates, expanding 360bps YoY to 16.1% YoY on the back of lower RM cost (-430bps) – this aided healthy EBITDA/PBT growth of 26%/24% YoY. Management has maintained guidance of 10-12% volume growth in FY20 but increased operating margin guidance from 13-14% to 14-14.5%. We raise FY20-FY22 earnings estimates by 2-4% and roll to a Mar'21 TP of Rs 1,385 (earlier Rs 1,235).

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Volumes flat: SI's Q3 revenues dipped 2.6% YoY to Rs 13.7bn with blended volume growth of 0.4%. Value growth was lower than volume growth due to a decline in raw material prices, resulting in lower realisations. During the quarter, plastic piping volumes were flat YoY while packaging and consumer products increased 4.7% and 6.6% respectively; industrial products declined 11%. As per management, demand was slow in the first half of Q3 due to the festival period and extended rains, but revived in the second half. Volume growth guidance has been maintained at 10-12% for FY20 (up ~8.5% YoY in 9MFY20).

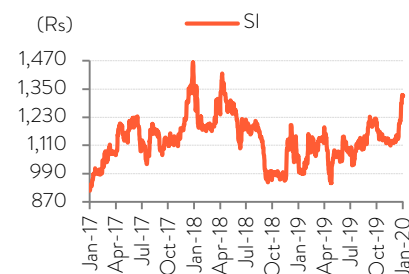
Lower RM cost aids margins: SI's operating margins expanded 360bps YoY to 16.1% due to lower raw material cost (+427bps) and higher value-added product sales (41.5% revenue share vs. 37.7% YoY), which comfortably offset higher employee expenses (+53bps). EBITDA/PBT grew 26%/24% YoY. Management has increased FY20 margin guidance to 14-14.5% (vs. 13-14%).

Maintain ADD: We raise FY20-FY22 earnings estimates by 2-4% to build in the Q3 beat and move to a revised Mar'21 TP of Rs 1,385 (earlier Rs 1,235). Maintain ADD as we continue to like SI for its strong brand, comprehensive portfolio and sound balance sheet.

Ticker/Price	SI IN/Rs 1,321
Market cap	US\$ 2.4bn
Shares o/s	127mn
3M ADV	US\$ 0.8mn
52wk high/low	Rs 1,350/Rs 946
Promoter/FPI/DII	50%/8%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	49,633	56,086	58,192	65,583	74,071
EBITDA (Rs mn)	7,841	7,812	8,129	9,365	10,662
Adj. net profit (Rs mn)	4,242	3,683	4,731	5,574	6,473
Adj. EPS (Rs)	33.4	29.0	37.2	43.9	51.0
Adj. EPS growth (%)	0.1	(13.2)	28.5	17.8	16.1
Adj. ROAE (%)	23.6	18.2	20.8	21.9	22.7
Adj. P/E (x)	39.6	45.6	35.5	30.1	25.9
EV/EBITDA (x)	21.0	21.2	20.4	17.8	15.7

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Total revenues	13,733	14,104	(2.6)	12,709	8.1
Total raw material consumed	8,891	9,734	(8.7)	8,384	6.0
% of sales	64.7	69.0	(427bps)	66.0	(123bps)
Employee expense	685	628	8.9	685	(0.1)
% of sales	5.0	4.5	53bps	5.4	(40bps)
Power & fuel expense	541	531	2.0	519	4.2
% of sales	3.9	3.8	18bps	4.1	(14bps)
Other expense	1,407	1,455	(3.3)	1,392	1.1
% of sales	10.2	10.3	(7bps)	11.0	(71bps)
Total expenditure	11,524	12,348	(6.7)	10,981	4.9
% of sales	83.9	87.5	(363bps)	86.4	(249bps)
EBITDA	2,209	1,756	25.8	1,728	27.8
% of sales	16.1	12.5	363bps	13.6	249bps
Depreciation	515	455	13.3	517	(0.4)
Other income	8	69	(88.4)	5	48
Interest cost	57	47	19.7	71	(20.1)
PBT	1,645	1,324	24.3	1,146	43.6
Taxes	419.1	461.6	(9.2)	(140.4)	(398.5)
Effective tax rate (%)	25.5	34.9	(940bps)	(12.3)	3,773bps
PAT	1,226	862	42.3	1,286	(4.6)
Share of profit of associate	8	(52)	(114.5)	110	(93.1)
RPAT	1,234	810	52.4	1,396	(11.6)
Adj PAT	1,226	862	42.3	1,286	(4.6)

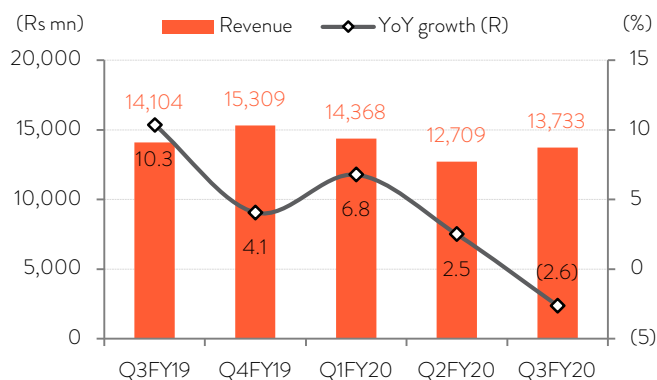
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Segment revenue					
Plastic Piping Products	7,984	7,956	0.4	8,115	(1.6)
Industrial Products	1,566	1,990	(21.3)	1,691	(7.4)
Packaging Products	3,086	3,070	0.5	1,980	55.9
Consumer Products	1,046	1,083	(3.4)	863	21.1
Others	52	7	689.4	60	(13.6)
Net Revenue from Operations	13,733	14,104	(2.6)	12,709	8.1
Segment Results					
Plastic Piping Products	1,035	755	37.1	1,099	(5.8)
Industrial Products	85	113	(25.1)	(20)	(533.2)
Packaging Products	437	362	20.8	38	1,045.0
Consumer Products	153	137	11.5	110	39.3
Others	1	(5)	(119.6)	3	(65.5)
Total Segment Profit before Interest and Tax	1,711	1,362	25.6	1,230	39.2
Margins (%)					
Plastic Piping Products	13.0	9.5	348bps	13.5	(57bps)
Industrial Products	5.4	5.7	28bps	(1.2)	NAs
Packaging Products	14.2	11.8	238bps	1.9	1224bps
Consumer Products	14.6	12.6	196bps	12.7	191bps

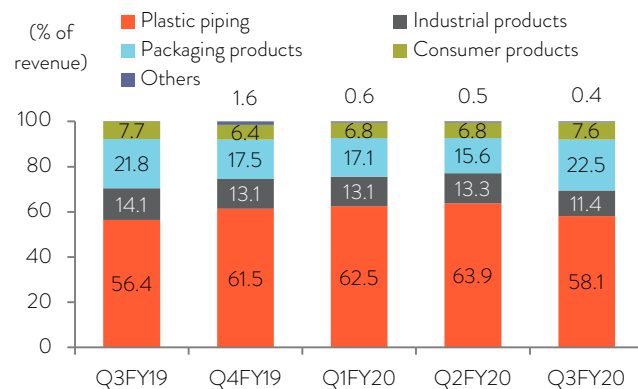
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GROWTH



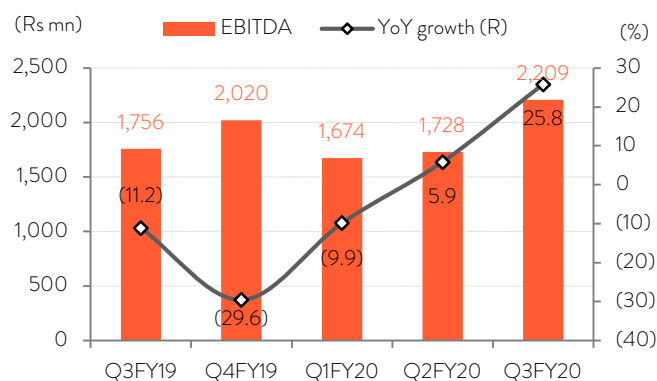
Source: Company, BOBCAPS Research

FIG 4 – REVENUE MIX



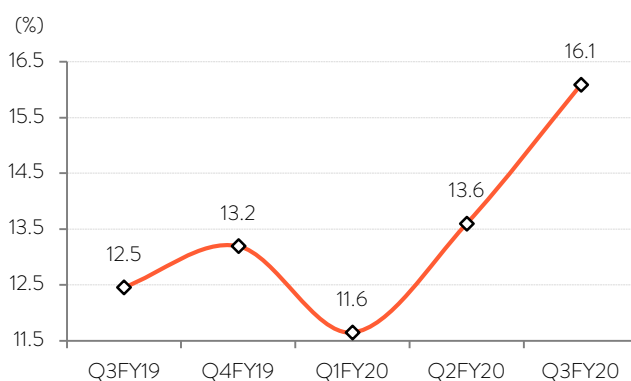
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED EBITDA GROWTH



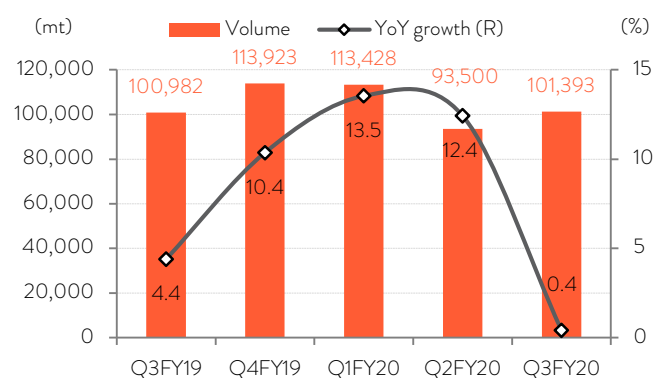
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA MARGIN



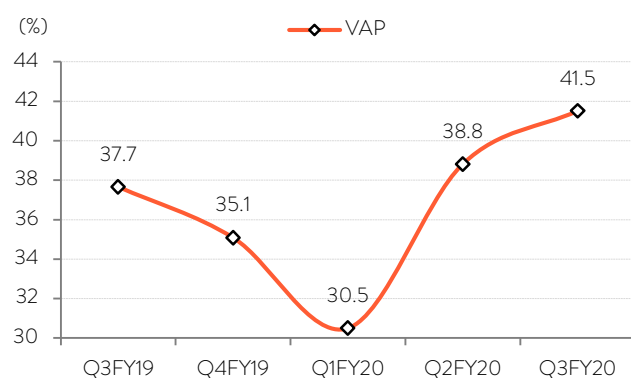
Source: Company, BOBCAPS Research

FIG 7 – VOLUME GROWTH



Source: Company, BOBCAPS Research

FIG 8 – REVENUE SHARE OF VALUE-ADDED PRODUCTS



Source: Company, BOBCAPS Research

FIG 9 – SEGMENTAL VOLUMES

Segment	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Plastic Piping	70,431	70,026	0.6	67,812	3.9
Packaging Products	16,399	15,667	4.7	11,062	48.2
Industrial Products	8,801	9,885	(11.0)	9,953	(11.6)
Consumer Products	5,762	5,404	6.6	4,673	23.3
Total	1,01,393	1,00,982	0.4	93,500	8.4

Source: Company, BOBCAPS Research

Earnings call highlights

- Management expects 10-12% volume growth for FY20 despite a tepid quarter as the company has begun to witness increased demand towards the end of Q3.
- SI expects high demand for agricultural pipes due to increased water availability.
- The industrial segment saw weak demand during Q3FY20 but SI expects a recovery in Q4 led by consumer appliance manufacturers.
- Cross-laminated prices are not expected to fall further going ahead. During the quarter, segmental revenues fell 1% YoY.
- Softer raw material prices aided demand growth in Q3, as per management, but these have now begun to rise.
- Management believes it can achieve blended operating margins of 14-14.5% in FY20 as RM prices have stopped correcting, whereby there will be no inventory loss. Also, increased sales of value-added products will strengthen margins.
- SI has decided to increase its FY20 capex commitment to Rs 5bn (from ~Rs 4bn) due to expectations of strong demand ahead (some of the capex cash flow will spill over to FY21 as and when machinery is delivered).
- Plans are underway to add ~70,000mtpa of capacity in FY20 and another ~40,000mtpa in FY21. Most of the capex will be toward the piping segment.

Valuation methodology

SI is a play on India's growing housing and consumer market, backed by a strong brand, comprehensive product portfolio and wide distribution reach. A healthy operating margin profile (14-15%), impressive return ratios (ROE of 22.7% in FY22E) and negligible debt make the stock attractive.

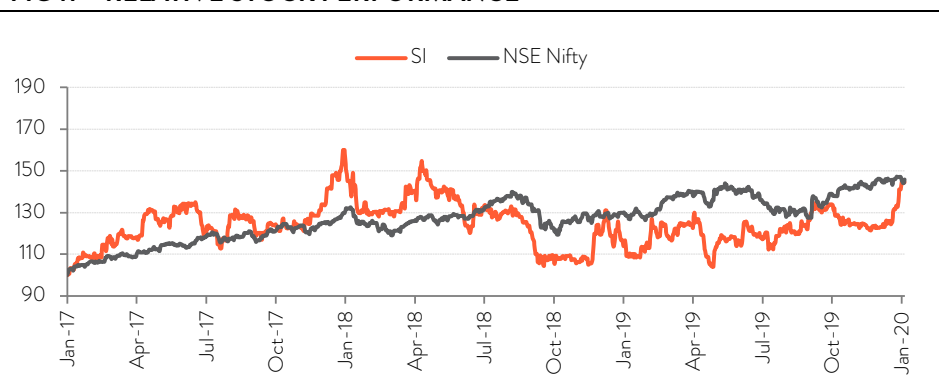
We increase FY20-FY22 earnings estimates by 2-4% to build in the Q3FY20 beat and continue to value SI at 27x one-year forward EPS, in line with the stock's five-year average. Rolling valuations forward, we have a revised Mar'21 target price of Rs 1,385 (earlier Rs 1,235). Maintain ADD.

FIG 10 – REVISED ESTIMATES

(Rs mn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	59,402	65,652	73,110	58,192	65,583	74,071	(2.0)	(0.1)	1.3
EBITDA	8,028	9,122	10,347	8,129	9,365	10,662	1.3	2.7	3.0
PAT	4,656	5,393	6,246	4,731	5,574	6,473	1.6	3.4	3.6

Source: BOBCAPS Research, Company

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our call are:

- high volatility in raw material prices,
- a slowdown in housing demand, and
- increased competition from unorganised players.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	49,633	56,086	58,192	65,583	74,071
EBITDA	7,841	7,812	8,129	9,365	10,662
Depreciation	(1,672)	(1,835)	(2,046)	(2,284)	(2,529)
EBIT	6,169	5,977	6,083	7,081	8,133
Net interest income/(expenses)	(269)	(336)	(210)	(134)	(60)
Other income/(expenses)	53	56	70	87	117
Exceptional items	75	803	0	0	0
EBT	5,953	5,697	5,943	7,034	8,190
Income taxes	(2,057)	(2,158)	(1,521)	(1,801)	(2,097)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	347	144	310	340	380
Reported net profit	4,317	4,486	4,731	5,574	6,473
Adjustments	(75)	(803)	0	0	0
Adjusted net profit	4,242	3,683	4,731	5,574	6,473

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	4,898	5,574	5,580	6,289	7,103
Other current liabilities	2,726	2,966	2,756	2,999	3,278
Provisions	324	240	407	459	518
Debt funds	2,464	1,613	1,400	890	400
Other liabilities	0	0	0	0	0
Equity capital	254	254	254	254	254
Reserves & surplus	18,695	21,286	23,727	26,603	29,943
Shareholders' fund	18,949	21,540	23,981	26,857	30,197
Total liabilities and equities	29,361	31,932	34,125	37,494	41,497
Cash and cash eq.	363	373	286	718	1,523
Accounts receivables	3,820	3,874	4,145	4,672	5,276
Inventories	6,970	7,504	7,493	8,445	9,538
Other current assets	1,988	1,847	1,913	2,156	2,435
Investments	1,937	2,223	2,223	2,223	2,223
Net fixed assets	13,658	15,210	17,164	18,379	19,600
CWIP	626	900	900	900	900
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	29,361	31,932	34,125	37,494	41,497

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,989	6,322	6,778	7,858	9,002
Interest expenses	269	336	210	134	60
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(711)	674	(362)	(718)	(824)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	5,548	7,331	6,626	7,273	8,238
Capital expenditures	(2,855)	(3,661)	(4,000)	(3,500)	(3,750)
Change in investments	0	287	0	0	0
Other investing cash flows	(47)	71	0	0	0
Cash flow from investing	(2,902)	(3,304)	(4,000)	(3,500)	(3,750)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(314)	(851)	(213)	(510)	(490)
Interest expenses	(269)	(336)	(210)	(134)	(60)
Dividends paid	(2,293)	(1,991)	(2,290)	(2,698)	(3,133)
Other financing cash flows	(205)	(840)	0	0	0
Cash flow from financing	(3,081)	(4,017)	(2,713)	(3,341)	(3,683)
Changes in cash and cash eq.	(435)	10	(87)	432	805
Closing cash and cash eq.	363	373	286	718	1,523

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	34.0	35.3	37.2	43.9	51.0
Adjusted EPS	33.4	29.0	37.2	43.9	51.0
Dividend per share	9.0	15.7	18.0	21.2	24.7
Book value per share	149.2	169.6	188.8	211.4	237.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.3	3.0	2.9	2.5	2.3
EV/EBITDA	21.0	21.2	20.4	17.8	15.7
Adjusted P/E	39.6	45.6	35.5	30.1	25.9
P/BV	8.9	7.8	7.0	6.2	5.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	56.7	79.6	79.2	79.0
Interest burden (PBT/EBIT)	97.7	108.8	97.7	99.3	100.7
EBIT margin (EBIT/Revenue)	12.4	10.7	10.5	10.8	11.0
Asset turnover (Revenue/Avg TA)	172.9	183.0	176.2	183.1	187.5
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	23.6	18.2	20.8	21.9	22.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	11.3	13.0	3.8	12.7	12.9
EBITDA	3.1	(0.4)	4.1	15.2	13.8
Adjusted EPS	0.1	(13.2)	28.5	17.8	16.1
Profitability & Return ratios (%)					
EBITDA margin	15.8	13.9	14.0	14.3	14.4
EBIT margin	12.4	10.7	10.5	10.8	11.0
Adjusted profit margin	8.5	6.6	8.1	8.5	8.7
Adjusted ROAE	23.6	18.2	20.8	21.9	22.7
ROCE	19.8	17.9	18.7	19.8	20.7
Working capital days (days)					
Receivables	24	25	25	25	25
Inventory	82	69	70	66	66
Payables	41	40	41	39	39
Ratios (x)					
Gross asset turnover	2.0	2.1	1.9	1.9	2.0
Current ratio	1.3	1.3	1.4	1.5	1.7
Net interest coverage ratio	22.9	17.8	29.0	53.0	135.5
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: SUPREME INDUSTRIES (SI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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